Board Action Bulletin

Prepared by the Office of Public & Congressional Affairs

NCUA BOARD MEETING RESULTS FOR JUNE 17, 2010

Stabilization Fund Assessment Set

The NCUA Board approved a 13.4 basis point assessment on federally insured credit unions to repay the $1.5 billion in outstanding borrowed funds in the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) on September 30, 2010.

The Stabilization Fund legislation established a process for attaining funds to pay costs associated with the corporate credit union stabilization by borrowing from the U.S. Department of the Treasury (Treasury) and repaying the borrowed funds with assessments of all federally insured credit unions. In May, the Board approved the Stabilization Fund borrowing up to $2 billion. Actual borrowings were $810 million, bringing the total outstanding to $1.5 billion. The borrowed funds will be placed into the corporate credit union system during the summer, typically a time of reduced liquidity. Staff recommended, and the NCUA Board approved an assessment of approximately $1 billion (which translates into .134 percent of insured shares as of March 31, 2010). The additional $500 million will come from a September reduction in the liquidity assistance provided to the corporate system. These actions are consistent with the purpose of the enabling legislation, by resulting in the repayment of $1 billion in corporate credit union stabilization cost this year with an impact that is manageable for individual credit unions.

The NCUA Board is responsible for assessing credit unions in an amount necessary to repay the U.S. Treasury for the $6 billion lending limit provided for in the Helping Families Save Their Homes Act that created the Stabilization Fund, and for maintaining an equity ratio in the National Credit Union Share Insurance Fund.

As of May 31, 2010 the Stabilization Fund recorded total liabilities of $7.1 billion consisting primarily of the $6.4 billion liability associated with the guarantee of shares in corporate credit unions and $690 million in unpaid funds previously borrowed from the Treasury. The assessment of 0.134 percent of $744.6 billion in insured shares as of March 31, 2010 will raise an estimated $1 billion and provide adequate funds for the repayment of borrowings. This level of assessment is within the 5 to 15 basis point total Stabilization Fund assessment projection for 2010 provided in November 2009.

The Stabilization Fund can only be used to pay expenses associated with the ongoing problems in the corporate credit union system, including payments connected to the conservatorship, liquidation, or threatened conservatorship or liquidation of a corporate credit union. The primary purpose of the Stabilization Fund is to assess over multiple years the cost to insured credit unions associated with the corporate credit union stabilization effort. All borrowings must be repaid to Treasury with interest. The Board has discretion as to the timing of each payment and the amount of principal included with each repayment, as long as all advances are paid in full within the statutory time limitations. The Board will assess all federally-insured credit unions as it determines necessary to make each repayment.

On September 26, 2016, the Stabilization Fund will need to fully pay any outstanding liabilities and close. The Board may extend the final repayment date with the prior concurrence of the Secretary of the Treasury.

Final Community Chartering Field of Membership Rule Approved

The NCUA Board adopted a final rule amending its chartering and field of membership manual to update its community chartering policies. These amendments include using objective and quantifiable criteria to determine the existence of a local community and defining the term “rural district.” The amendments clarify NCUA’s marketing plan requirements for credit unions converting to or expanding their community charters and define the term “in danger of insolvency” for emergency merger purposes.

In 1998, Congress passed the Credit Union Membership Access Act (“CUMAA”) and reiterated its longstanding support for credit unions, noting that they “have the specif[ic] mission of meeting the credit and savings needs of consumers, especially persons of modest means.” The Federal Credit Union Act (“FCU Act”) grants the NCUA Board broad general rulemaking authority over federal credit unions. 12 U.S.C. § 1766(a). In passing CUMAA, Congress amended the FCU Act and specifically delegated to the Board the authority to define by regulation the meaning of a “well-defined local community” (WDLC) and rural district for federal credit union charters.

The NCUA Board continues to recognize two important characteristics of a WDLC. First, there is geographic certainty to the community’s boundaries, which must be well-defined. Second, there is sufficient social and economic activity among enough community members to assure that a viable community exists. Since CUMAA, NCUA has expressed this latter requirement as “interaction and/or shared common interests.” NCUA Chartering and Field of Membership Manual (Chartering Manual), Interpretive Ruling and Policy Statement (IRPS) 08-2, Chapter 2, V.A.1.

The Board has gained broad experience in determining what constitutes a WDLC by analyzing numerous applications for community charter conversions and expansions. In this process, the Board has exercised its regulatory judgment in determining whether, in a particular case, a WDLC exists. This involves applying its expertise to the question of whether a proposed area has a sufficient level of interaction and/or shared common interests to be considered a WDLC.

With the benefit of having received public comments to a proposal to amend NCUA’s community chartering rules issued in May 2007, NCUA issued a substitute proposal in December 2009. 72 Fed. Reg. 30988 (June 5, 2007), 74 Fed. Reg. 68722 (December 29, 2009). Some provisions of the May 2007 proposal were incorporated into the 2009 proposal without change, while others were modified or eliminated.

NCUA received comments on the 2009 proposal from 44 commenters including 23 credit unions, 20 credit union trade associations, and 1 bank trade association. The commenters generally commended NCUA for addressing the difficult issues that are the subject of the proposal. The banking trade association opposed the proposal in general. All commenters offered some suggested revisions to the proposal.

The following aspects of the 2009 proposal were finalized without change: 1) the treatment of single political jurisdictions (SPJs); 2) the elimination of the narrative approach; 3) the grandfathering of previously approved WDLCs; 4) the treatment of underserved areas; 5) the ability to serve analysis and marketing plan requirements; and 6) the definition of "in danger of insolvency."

As a result of further deliberations and consideration of the public comments, NCUA made final amendments to: 1) the criteria required for establishing a multiple political jurisdiction WDLC, and 2) the definition of "rural district." These adjustments refine NCUA's chartering policies to balance enabling an FCU to fulfill its mission to provide reasonably priced financial services to qualifying members with NCUA's need to comply with the statutory provisions in the FCU Act. Both adjustments will make the chartering policies more practical.

Board Changes Delegations of Authority

The NCUA Board, by a 2-1 vote, approved new chartering delegations of authority to expedite the processing of various types of chartering transactions. The new delegations authorize Regional Directors and the Director of the Office of Small Credit Union Initiatives to process a broad range of chartering transactions. The Board retains the authority to process appeals and all chartering transactions involving over 1,000,000 people.

The new delegations stipulate that any action submitted to the NCUA Board for approval should have review and comment by the Office of Examination and Insurance. Appeals to disapprovals will be considered by the NCUA Board.

The changes grant authority to Regional Directors or Office of Small Credit Union Initiatives (OSCUI) to approve or disapprove applications for:

1. new single occupational or associational common bond charters; multiple common bond charters; and community charters where the population of the community does not exceed 1 million; [OSCUI]
2. charter amendments for existing single common bond credit unions, removal of groups from single common bond credit unions, and conversions of single common bond credit unions to any other type of federal credit union charter. If the new charter is to be a community charter, then the above authority is granted only where the population of the community does not exceed 1million; [Regional Director]
3. chartering a new credit union based on a Trade, Industry, or Profession (TIP); [OSCUI]
4. new multiple common bond charters; [OSCUI]
5. charter amendments for existing multiple common bond credit unions, removal of groups from multiple common bond credit unions, and conversions of multiple common bond credit unions to any other type of federal credit union

charter. If the new charter is to be a community charter, then the above authority is granted only where the population of the community does not exceed 1,000,000; [Regional Director]

6. charter amendments, including expansions of existing community charters and conversions of any type of federal charter to a community charter where the population of the community does not exceed 1,000,000 [Regional Director];

Board Adopts Federal Accounting Standard for Stabilization Fund

The NCUA Board also approved the adoption of Federal Accounting Standards Advisory Board (FASAB) standards for the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund).

The National Credit Union Share Insurance Fund (NCUSIF) is required by the Federal Credit Union Act to follow U.S. generally accepted accounting principles (GAAP). The General Counsel's opinion concluded that "section 105 of the GCC Act, as interpreted by the General Accounting Office, does not preclude NCUSIF from using an alternative set of accounting rules such as FASAB in preparing the NCUSIF's financial statements." While this conclusion addresses the NCUSIF, the same section of the Federal Credit Union Act is applicable to the Stabilization Fund because the NCUA Board is required to administer the Stabilization Fund as prescribed by statute.

With the creation of the Stabilization Fund, the NCUA Board has the opportunity to select the accounting standards that would be most appropriate for fulfilling the Board's stewardship responsibilities to the fund's stakeholders. A major function for effective stewardship is the timely communication of financial activities in a format that is clear and understandable to stakeholders.

The American Institute of Certified Public Accountants (AICPA) has designated the FASAB as the source of GAAP for federal reporting entities. As such, the FASAB is responsible for designating the GAAP hierarchy for federal reporting entities). FASAB's Statement of Federal Financial Accounting Standard No. 34, *The Hierarchy of Generally Accepted Accounting Principles* (SFFAS No. 34), requires the application of FASAB standards for federal entities, but also allows, in rare instances, application of Financial Accounting Standards Board accounting standards, commonly referred to as commercial accounting standards, to federal entities.

Reasons for adoption of FASAB standards for the Stabilization Fund were as follows:

a) Clear financial reporting to NCUA's principal stakeholders – The principal stakeholders of the Stabilization Fund are Congress, the Office of Management and Budget (OMB), and the public.

   The majority of federal entities reporting to Congress and OMB prepare FASAB financial statements. Accordingly, Congress and OMB are educated users of FASAB financial statements, familiar with the nuances and methods of evaluating programs presented therein.

   Additionally, FASAB considered the public as significant users when it established the framework for the form and content of its financial statements. Accordingly, the FASAB financial statements address the needs of the public.

In reporting to NCUA's principal stakeholders in a format designed for them, we can promote complete, accurate, and transparent communication of the financial condition.

b) Preferred standard for federal entities – FASAB is the body designated by the AICPA as the source of GAAP for federal reporting entities. SFFAS No. 34, *at* paragraph 10, states "a federal entity that is preparing GAAP based general purpose financial reports for the first time should implement FASAB standards as FASAB is the preferred method of reporting for federal entities." In rare instances, exceptions are allowed.

NCUA Board adopted FASAB standards and applied them retroactively to the date the Stabilization Fund. A budget of $250,000 was established to review accounting resources, policies, and processes for FASAB financial reporting and to review the applicability of adopting FASAB standards for other NCUA funds (i.e., Share Insurance Fund, Operating Fund, Central Liquidity Facility, and Community Development Revolving Loan Fund).

Stabilization Fund Payment Determined

The NCUA Board authorized the Temporary Corporate Credit Union Stabilization Fund to make payment of insured shares up to the Standard Maximum Share Insurance Amount for any corporate credit union placed into liquidation.

The Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) provides a guarantee of 100 percent of participating credit unions' shares in NCUSIF-insured accounts that exceed insured limits (guaranteed shares). When the TCCUSGP was originated, the NCUSIF recorded a contingent liability for the obligation undertaken in issuing the TCCUSGP. The carrying amount of the liability has been revised periodically to reflect changes in the cash flow projection of the underlying corporate credit union assets. When the Stabilization Fund was implemented in June 2009, it assumed the legal liability recognized for the TCCUSGP.

The payment of the insured amounts (insured shares) in a liquidating corporate credit union is primarily a liability of the NCUSIF, but the Stabilization Fund legislation allows for the NCUA Board to utilize the Stabilization Fund to make the payment. Utilization of the Stabilization Fund for the payment of the insured shares in liquidating corporate credit unions will allow the Stabilization Fund to accept all losses associated with the corporate credit union resolution plan. The enabling legislation for the Stabilization Fund states,

> *"…the Stabilization Fund shall be available upon requisition by the Board, without fiscal year limitation, for making payments for the purposes described in Section 203(a), subject to the following additional limitations: (1) All payments other than administrative payments shall be connected to the conservatorship, liquidation, or threatened conservatorship or liquidation, of a corporate credit union."*

The FCU Act contains the authorization of the NCUSIF to make payment of insurance under Section 207 (liquidations) and for providing assistance under Section 208 of the Act in connection with the liquidation or threatened liquidation of insured credit unions.

Before the Board's action at its June 18, 2009 meeting, the NCUSIF was obligated to pay the guaranteed shares of liquidating corporate credit union unions under the TCCUSGP. The NCUSIF was also obligated to pay the insured shares of liquidating corporate credit unions under the Federal Credit Union Act. At the June 18, 2009 Board meeting, it was staff's intent to recommend that the NCUSIF's obligation for payment on all of a liquidating corporate credit union's shares be assumed by the Stabilization Fund, including both the guaranteed share portion and the insured share portion.[1] The wording of the June 2009 BAM, however, technically transferred only the obligation to pay the guaranteed shares and not the insured shares. This BAM completes the transfer of the obligation to pay the insured shares from the NCUSIF to the Stabilization Fund.

Without the payment of the corporate credit union insured shares by the Stabilization Fund in the event of liquidation, the NCUSIF would record the payment of insured shares (a liability of about $950 million) and recognize the related expenses. The NCUSIF recording a $950 million expense would reduce the NCUSIF's equity ratio by thirteen basis points. The insured share expense is included in the $6,365,500,000 liability recorded by the Stabilization Fund for the TCCUSGP.

National Credit Union Share Insurance Fund Report

Advances to Credit Unions: Share Deposits and Loans – $10.0 billion represents liquidity loans to two problem credit unions.

Other Receivables: Due from Credit Unions – $2.7 million represents the amount of 1% deposit adjustments due from credit unions on April 15, 2010 based on their 12/31/09 level of insured shares.

Other Receivables: Insurance Premium – $86.2 thousand represents the outstanding premium assessments that were due on December 15, 2009.

Notes Payable - CLF – $10.0 billion represents the loan the CLF made to the NCUSIF in March 2009 to provide liquidity loans to two problem credit unions.

Provision for Credit Union Losses (Reserves) - NPCU – of $1.1 billion includes an increase of $132.1 million in reserves for specific and non-specific natural person credit unions.

Statement of Revenue and Expense**:** Insurance Loss Expense – is $132.1 million for May. $12.9 million was expensed to increase specific natural person credit union reserves, and $119.2 million for non-specific reserves.

Board votes are unanimous unless otherwise indicated. NCUA rule changes are posted online at www.ncua.gov under Resources/Regulations, Legal Opinions and Laws.

[1] The $4,976,870,000 liability assumed by the Stabilization Fund in June 2009 represented the combined liability for both insured and guaranteed shares.